

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Fixed Income – Home Loan Program Annual Report

ITEM NUMBER: 5

ATTACHMENT(S): 4

ACTION: X

DATE OF MEETING: March 6, 2002

INFORMATION: _____

PRESENTER(S): Michelle Cunningham
Robert Woods & Joe DeLuca

EXECUTIVE SUMMARY

One of the objectives approved for the Investment Branch for fiscal year 2001/02 is to present an annual report on the California State Teachers' Retirement System (CalSTRS, System) Home Loan Program (HLP). **Attachment 1** is intended to fulfill that objective, and is presented for the Committee's information.

In addition, as a result of recent legislation revising the maximum loan amount authorized for the CalSTRS HLP, staff has prepared an updated HLP Policy Manual reflecting the legislative changes. Furthermore, based upon Board Policy, which states that such policies shall be reviewed periodically (the last update to the HLP Policy Manual was October 2000), staff is also submitting other changes to the HLP Policy Manual, some of which are cosmetic and others which will more clearly reflect how the program is being managed. **Attachment 2** represents a marked-up HLP Policy Manual illustrating staff's suggestions; **Attachment 3** is the proposed revised Policy.

BACKGROUND

The CalSTRS HLP was originally created as a result of legislation in 1984. This legislation provided the CalSTRS Board the ability to facilitate home ownership for California teachers, while providing an investment opportunity for the System's investment portfolio. Subsequent legislation, referred to as the Dave Elder Act, enabled the System to enter into Correspondent Agreements with private lending institutions, in order to originate and service the mortgage loans. Recent legislative updates have enhanced the HLP by permitting one hundred percent (100%) financing to qualified borrowers who might otherwise have no downpayment and updating the existing HLP loan limit in such a way as to reflect the conforming loan limits of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Association (FHLMC).

Since 1998, the CalSTRS HLP has been managed within the Fixed Income Unit. The CalSTRS Long-Term Fixed Income Portfolio includes a thirty-percent (30%) strategic target weighting to mortgage-backed securities (MBS). As a result, the ability to originate these types of investments through the HLP as an alternative to buying them in the open market represents an attractive investment option that enhances the diversification of the Fixed Income Portfolio assets, and improves the risk/return profile of the MBS Portfolio. It is estimated that, since inception, the CalSTRS HLP has made over 27,000 mortgage loans to members, and funded approximately \$3.1 billion in loans.

DISCUSSION

Last July, when staff presented its HLP Business Plan to the Investment Committee, the main challenge identified with the program going forward, was the management of both the quantity and quality of the mortgage loan production. Loan production for last fiscal year (2000/01) exceeded \$350 million, which was more than six times the production of the previous fiscal year. Furthermore, given the interest rate environment, HLP mortgage loan production for the current fiscal year appears to be approaching the \$500 million mark by June 2002. As a result, the goal of this HLP Annual Report (**Attachment 1**) is to advise the Committee of the activity within the program and the efforts by staff to manage the growth effectively while maintaining the level of quality necessary to meet the investment portfolio performance objectives. This report also describes areas of focus for the staff in preparation for this year's HLP Business Plan.

SB499 (Soto), which was effective in January 2002, enables CalSTRS to set the HLP mortgage loan limit at two times the conforming loan limits of the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Association (FHLMC), whichever is higher. As a result of this change, the existing HLP Policy regarding the maximum loan limit of \$350,000 has been updated (**Attachment 2**) for the Committee's approval (see Policy 5d, page 3). Given the opportunity, in addition to suggesting some cosmetic changes, staff is also recommending that the Investment Committee approve the elimination of reference to the Personal Loan Program within the HLP Policy Manual (see Policies 14-17, pages 6 and 7). While the statutory authorization to provide eligible CalSTRS members with a mortgage loan program that enables them to use a portion of their accumulated retirement benefits as downpayment assistance toward the purchase of a home, CalSTRS has chosen not to implement the program. This was due, not only to technical and administrative difficulties associated with the implementation of the Personal Loan Program, but also to the fact that CalSTRS has been able to develop better options for downpayment and affordability issues that do not have the potential to endanger members' retirement benefits. **Attachment 3** represents a clean copy of the draft policy under consideration, including all of staff's recommended changes.

RECOMMENDATION

Staff recommends that the Investment Committee approve the updated HLP Policy Manual and the attached Board Resolution (**Attachment 4**).

Date prepared: February 19, 2002

By:



Joseph DeLuca
Investment Officer

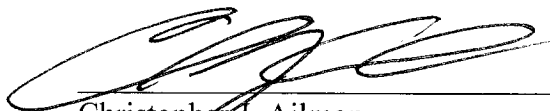


Robert Woods
Investment Officer



Michelle Cunningham
Director of Fixed Income

Review & Concur:



Christopher J. Ailman
Chief Investment Officer

CalSTRS Fixed Income **Home Loan Program (HLP)**

Annual Report
for
December 31, 2001

Michelle Cunningham, Director of Fixed Income
Robert Woods, Investment Officer
Joseph DeLuca, Investment Officer

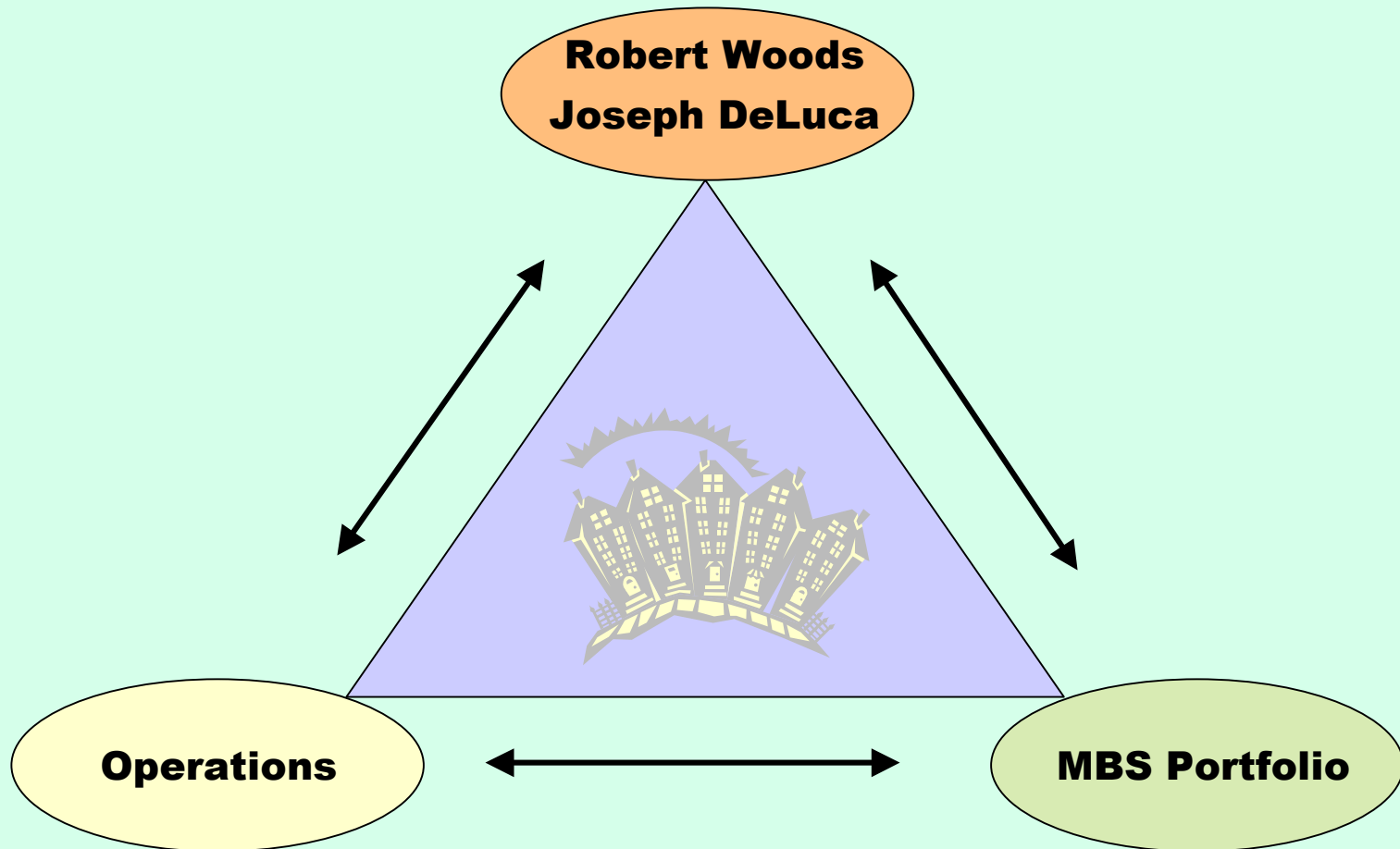
CalSTRS Fixed Income - HLP ANNUAL REPORT

Table of Contents:

- **HLP Management Team**
- **Loan Programs**
- **Loan Volume**
- **Delinquency Report**
- **Portfolio Performance**
- **Participating Lenders**
- **Program Highlights**
- **Going Forward**

CalSTRS Fixed Income - HLP ANNUAL REPORT

Management Team:



CalSTRS Fixed Income - HLP ANNUAL REPORT

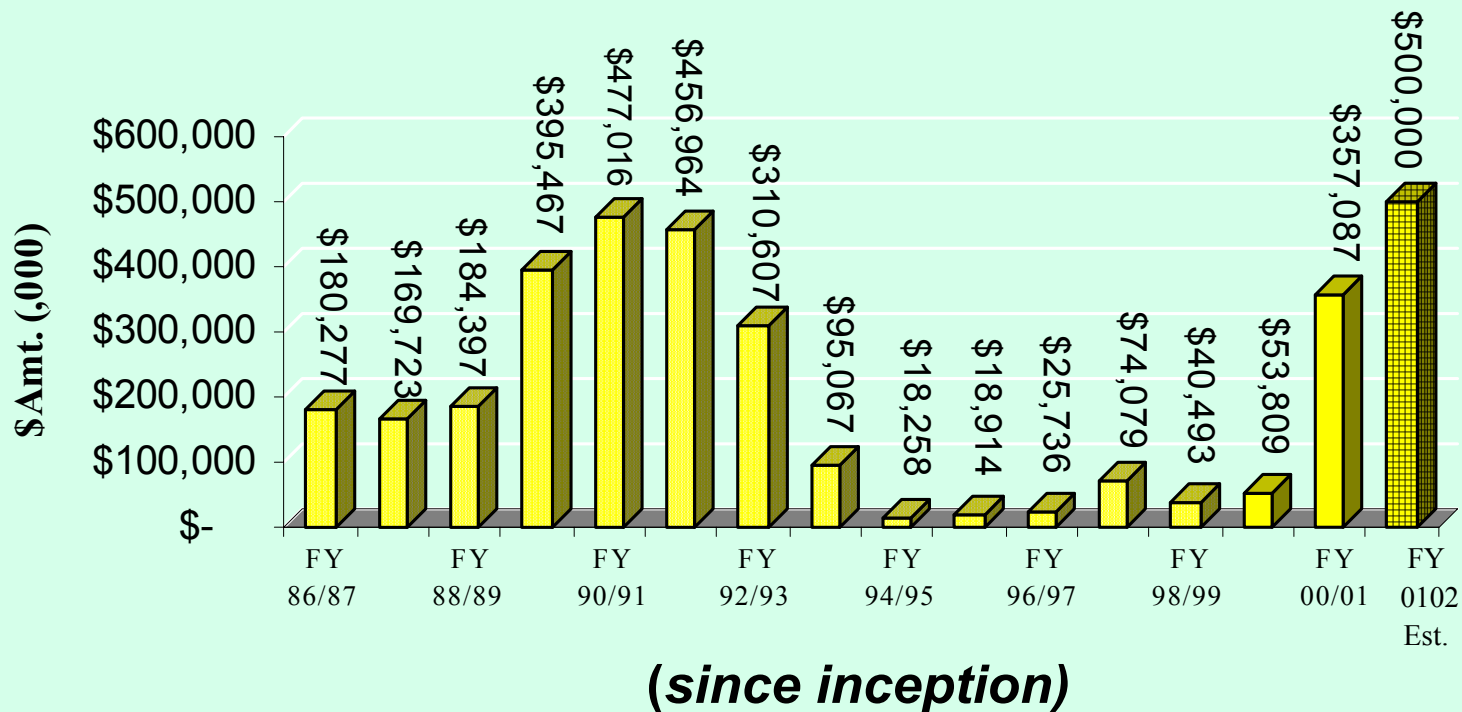
Loan Programs:

1. **Conventional 15 & 30-year Mortgage Loans**
 - 15 year/30 year Term with 5% Down Payment Plus Closing Costs
2. **Zero-Down Preferred Program**
 - 95% First Mortgage Loan
 - 5% “Silent Second” Mortgage Loan
3. **80 –17 Program (new)**
 - 80% First Mortgage Loan
 - 17% “Silent Second” Mortgage Loan
 - 3% Down Payment
4. **No Points – No Fees**
 - CalSTRS Pays Closing Costs (up to 3%)
 - Requires A Higher Loan Interest Rate
 - Pre-Payment Penalty

CalSTRS Fixed Income - HLP ANNUAL REPORT Loan Volume:



27,000 loans; \$ 3.1 billion

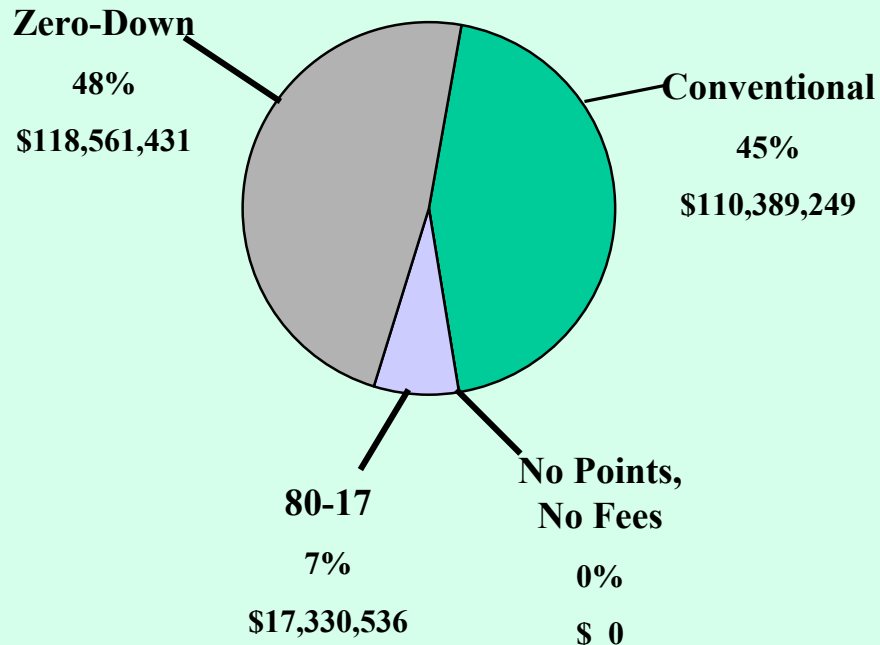


CalSTRS Fixed Income - HLP ANNUAL REPORT Loan Volume:

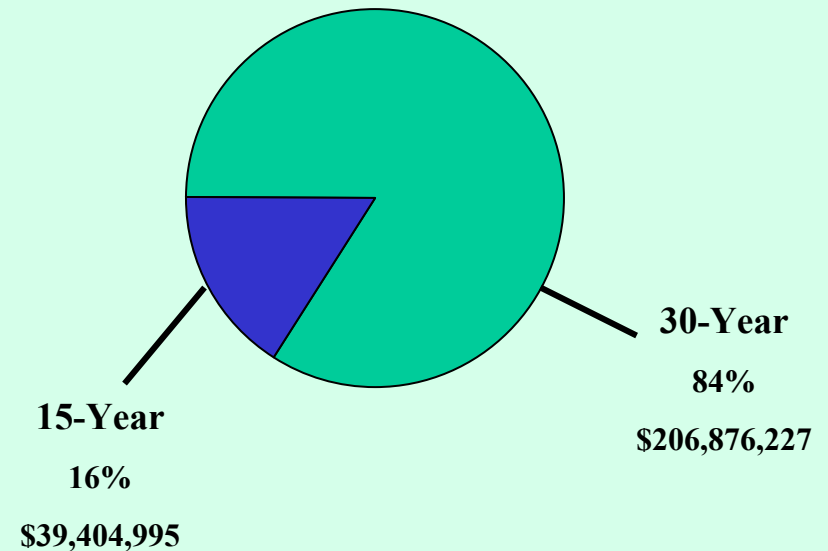
\$246,281,217



By Program



By Loan Term



CalSTRS Fixed Income - HLP ANNUAL REPORT Delinquency Report:

CORRESPONDENT LENDERS

Reporting Period as of 12/31/2001

	Number of Loans	Unpaid Balance
30-day	36	\$5,542,382.62
60-day	2	\$566,899.14
90-day	0	—
120-day	1	\$200,901.84
Foreclosure	2	\$259,664.30
Total Delinquent	41	\$6,569,847.90
Total Portfolio	3117	\$409,679,190.06

Delinquency Rate:

41 out of 3,117 loans = 1.3%

National Average:

4.87%



CalSTRS Fixed Income - HLP ANNUAL REPORT

Portfolio Performance:



	Dec-01	Quarter	Fiscal YTD	1 Year	3 Year	5 Year
CalSTRS ENHANCED HOME LOAN PORTFOLIO – TC92	-0.45%	0.87%	4.39%	—	—	—
<i>LPF – MORTGAGE</i>	-0.37%	0.06%	4.37%	—	—	—
<i>Difference</i>	-0.08%	0.81%	0.02%	—	—	—

CalSTRS Fixed Income - HLP ANNUAL REPORT

Participating Lenders:

- Bank of America
- CUNA Mutual Mortgage Corp.
- Countrywide Home Loans
- First Mortgage Corp.
- Washington Mutual (formerly NAMCO)
- Wells Fargo Home Mortgage

CalSTRS Fixed Income - HLP ANNUAL REPORT

Program Highlights:

- **Completed Phase 1 of the automation project.**
- **Became a Fannie Mae Seller/Servicer.**
- **Securitized & sold \$261.9 million in mortgage loans.**
- **Implemented the “80-17” Program statewide**
- **Created separate portfolio to quantify HLP performance.**

CalSTRS Fixed Income - HLP ANNUAL REPORT Looking Forward:

- Risk Management
 - Exit Strategies
 - Additional M.I. Providers
 - Hedging Pipeline
- Marketing
- Program Enhancements
 - Automation Phase II
 - On-line Applications Process

CalSTRS Fixed Income **Home Loan Program (HLP)**

Annual Report

Questions and Comments?



CalSTRS Fixed Income **Home Loan Program (HLP)**

END SLIDE

CalSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

HOME LOAN PROGRAM (*HLP*) *Policies*

INVESTMENT BRANCH
~~October 2000~~
March 2002

**California State Teachers' Retirement System
Home Loan Program (*HLP*) Policies**

TABLE OF CONTENTS

Introduction	1
CalSTRS Home Loan Program Policies	3
CalSTRS Home Loan Program Flowchart	2
CalSTRS Home Loan Program Glossary	7

California State Teachers' Retirement System Home Loan Program (HLP) Policies

INTRODUCTION

~~The California State Teachers' Retirement System (CalSTRS) Mortgage Home Loan Program (HLP) was established in 1984 as the result of legislation that provided CalSTRS with a mortgage backed investment opportunity, as well as an additional source of home financing for its members and retirees. Later legislation, referred to as the Dave Elder State Teachers' Retirement System Member Home Loan Program Act, enabled the California State Teachers' Retirement Board (Board) to enter into correspondent agreements with private lending institutions to facilitate the implementation of the HLP. Subsequent to the passage of that legislation, in 1986 CalSTRS began making 15 and 30 year fixed interest rate mortgage loans for the refinance or purchase of one to four family owner occupied properties within the State of California.~~

~~Senate Bill 1945 (SB1945), which was passed into law in August 1998, and amended in 1999, represents the most recent update to the CalSTRS HLP. Although much of the original language from the earlier Dave Elder Act has been retained, the new legislation is noteworthy in that it provides the Board the option of considering opening the HLP to borrowers who are not CalSTRS members. This legislation also permits the Board the option to provide one hundred percent (100%) financing to qualified borrowers who might otherwise have no downpayment.~~

~~Following are some of the features of the CalSTRS HLP:~~

- ~~• Competitive loan rates on a variety of mortgage loans.~~
- ~~• Highly experienced correspondent lenders working with program participants.~~
- ~~• Availability of purchase or refinance plans.~~
- ~~• Ability to participate in loan programs designed to address affordability issues.~~

~~This policy document represents the internally approved policies of CalSTRS' HLP, which have been designed to set the boundaries for the management and oversight of the program. A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are referenced in the Glossary.~~

**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

PROGRAM POLICIES

~~October 2000~~ *March 2002*

This *policy* document outlines the internally approved policies for the management of CalSTRS' HLP. These policies are designed to set the boundaries that will ensure prudence and care in the implementation of the program, while allowing sufficient flexibility in developing a program that is competitive and that will provide up to 100 percent (100%) home loan financing. Policies approved by the Board cannot be altered without explicit direction from the Board. *A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are referenced in the Glossary.*

1. **Laws and Statutes** – As stated within Section 22360 of the Teacher's Retirement Law, notwithstanding any other provision of law, the Board may, pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions within California to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes within the state. Furthermore, the Board shall include a procedure whereby a borrower may obtain 100 percent (100%) financing for the purchase of a single family dwelling within specified criteria.
2. **Program Objectives** – The criteria and terms for CalSTRS' home loans shall be consistent with the financial integrity of the program and the sound investment of the retirement fund. Appropriate administrative costs of implementing this program shall be paid by the participating borrowers. These costs may be included in the loan amount.
3. **Loan Rates** – Loan rates shall be periodically reviewed and adjusted as described within the Procedures and Desk Manuals to provide home loans to borrowers consistent with the financial integrity of the HLP and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be lower than the market rate.
4. **Property Types** (*previously listed as **Item 9***) – Mortgage Loans shall be made available to borrowers for the purchase or refinance of single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.
5. **Terms and Conditions** (*previously listed as **Item 10***) – Mortgage Loans shall be made available under the following terms and conditions:
 - a) Borrowers shall occupy the homes as their principal residence.
 - b) Home loans shall be secured primarily by the property purchased or refinanced, and shall not exceed the appraised value of that property.

- c) Home loans shall be available only for the purchase or refinance of homes in the State of California.
 - d) In no event shall the loan amount exceed ~~three hundred fifty thousand dollars (\$350,000)~~ *two times the conforming loan limit of Fannie Mae or Freddie Mac, whichever is higher.*
 - e) Prepayment penalties may be assessed on the Mortgage Loans in accordance with the rules and regulations established by the Board.
6. **Loan-to-Value Ratios (LTV)** *(previously listed as Item 11)* – The terms and conditions shall provide a loan-to-value ratio of up to 100 percent (100%) of the appraised value of the property.
- The portion of any loan exceeding 80 percent (80%) of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent (75%) of the market value of the property, together with improvements thereon.
7. **Authorized Signers** *(previously listed as Item 4)* – Authorization letters that indicate who may sign on behalf of CalSTRS shall be delivered to the appropriate parties. Whenever a change in authorized signers occurs, the affected parties shall be notified within 24 hours, in the event of termination, and as soon as possible, in the event of a newly authorized signer.
8. **Investment Limitations** *(previously listed as Item 12)* – The following daily limits apply with respect to the approval of trade activity within the HLP:
- Investment Officer I – May approve up to \$5 million in loans per day.
 - Investment Officer II – May approve up to \$10 million in loans per day.
 - Investment Officer III – May approve up to \$20 million in loans per day.
 - Principal Investment Officer – May approve up to \$35 million in loans per day.
 - Director of Fixed Income – May approve up to \$50 million in loans per day.
 - Chief Investment Officer – May approve up to \$100 million in loans per day.
9. **Trade Processing** *(previously listed as Item 13)* – Prior to being processed to Operations, all trade tickets shall be authorized within the limits noted above, and countersigned by two investment officers within Fixed Income.
10. **Business Plan** *(previously listed as Item 5)* – The HLP will be managed in accordance with a Business Plan which will be prepared on an annual basis and will describe CalSTRS' goals for the HLP and will include a plan for achieving such goals over the subsequent twelve month period.

11. **Delegation of Authority** *(previously listed as Item 6)* – The implementation of CalSTRS’ HLP is delegated to staff within the boundaries established by these policies and the processes outlined in the Procedures Manual.
12. **Reporting** *(previously listed as Item 7)* – Staff will prepare monthly reports for the Chief Investment Officer which summarize the activities associated with the management of the HLP. The reports shall provide information regarding loan production, loan rates, and performance measurement.
13. **Board Review** *(previously listed as Item 8)* – The Board shall administer and review this policy periodically, as it deems appropriate and in keeping with the investment standard.

MORTGAGE LOANS

- ~~9. **Property Types** *(moved to Item 4)* — Mortgage Loans shall be made available to borrowers for the purchase or refinance of single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.~~
- ~~10. **Terms and Conditions** *(moved to Item 5)* — Mortgage Loans shall be made available under the following terms and conditions:~~
 - ~~f) Borrowers shall occupy the homes as their principal residence.~~
 - ~~g) Home loans shall be secured primarily by the property purchased or refinanced, and shall not exceed the appraised value of that property.~~
 - ~~h) Home loans shall be available only for the purchase or refinance of homes in the State of California.~~
 - ~~i) In no event shall the loan amount exceed three hundred fifty thousand dollars (\$350,000).~~
 - ~~j) Prepayment penalties may be assessed on the Mortgage Loans in accordance with the rules and regulations established by the Board.~~
- ~~11. **Loan-to-Value Ratios (LTV)** *(moved to Item 6)* — The terms and conditions shall provide a loan-to-value ratio of up to 100 percent (100%) of the appraised value of the property.~~

~~The portion of any loan exceeding 80 percent (80%) of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent (75%) of the market value of the property, together with improvements thereon.~~

**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

~~12. **Investment Limitations** (moved to Item 8) — The following daily limits apply with respect to the approval of trade activity within the HLP:~~

- ~~• Investment Officer I — May approve up to \$5 million in loans per day.~~
- ~~• Investment Officer II — May approve up to \$10 million in loans per day.~~
- ~~• Investment Officer III — May approve up to \$20 million in loans per day.~~
- ~~• Principal Investment Officer — May approve up to \$35 million in loans per day.~~
- ~~• Director of Fixed Income — May approve up to \$50 million in loans per day.~~
- ~~• Chief Investment Officer — May approve up to \$100 million in loans per day.~~

~~13. **Trade Processing** (moved to Item 9) — Prior to being processed to Operations, all trade tickets shall be authorized within the limits noted above, and countersigned by two investment officers within Fixed Income.~~

PERSONAL LOANS

~~14. **Eligibility** — Personal Loans permitted under this policy shall be made available only to those who are entitled to receive an allowance funded by the System, notwithstanding any vesting requirement and without regard to present eligibility to retire, and who are not retired or disabled.~~

~~15. **Terms and Conditions** — Personal Loans permitted under this policy shall be made available under the following terms and conditions:~~

- ~~a) The member shall obtain one loan with a loan-to-value ratio not to exceed 95 percent (95%), secured by the purchased home, and a Personal Loan with a loan-to-value ratio not to exceed 5 percent (5%). The Personal Loan shall be secured by a portion of the accumulated retirement contributions in the member's individual account.~~
- ~~b) The 5 percent (5%) Personal Loan shall only be used for the purchase of the member's principal residence and not for a loan to refinance the member's existing mortgage.~~
- ~~c) In no event shall the loan amount, including the Personal Loan secured by the accumulated retirement contributions in the member's individual account, exceed three hundred fifty thousand dollars (\$350,000).~~
- ~~d) In no event may the Personal Loan secured by the accumulated retirement contributions in the member's individual account exceed the lesser of: 50 percent (50%) of the current value amount of the accumulated contributions or fifty thousand dollars (\$50,000).~~

- c) ~~If two members are married, the Personal Loan secured by the sum total of accumulated retirement contributions in both members' accounts shall not exceed five percent (5%) of the loan.~~

~~16. **Pledge of Security** The pledge of security for the Personal Loan permitted under this policy shall remain in effect until the loan is paid in full, within the following constraints:~~

- a) ~~If the member is married at the time the home is purchased with a Personal Loan secured by the member's accumulated retirement contributions, then the member's spouse shall agree in writing to the pledge of security, as to his or her community interest in the amount pledged, regardless of whether title to the home is in joint tenancy.~~
- b) ~~The pledge of security under this policy shall take binding effect. In the event of default on the Personal Loan, the System may recover the pledge amount pursuant to Policy #17 and implementing procedures.~~

~~17. **Default Provisions** In the event of a default on the Personal Loan, the Board may take action to recover the pledge amount.~~

- a) ~~In the event of a default on the Personal Loan secured by the member's retirement contributions, the Board shall deduct an amount from the member's accumulated retirement contributions on deposit and adjust the member's accumulated retirement contributions as necessary to recover any outstanding loan balance prior to making any disbursement of a refund or a lump sum distribution.~~
- b) ~~In the event of a default on the Personal Loan by a member, the Board shall deduct the monthly principal plus appropriate interest from the member's benefit, when the member begins receiving a benefit, until the loan is paid in full.~~
- c) ~~In the event of a default on the Personal Loan by a member receiving a benefit, the Board shall deduct the monthly principal and interest from the member's benefit until the Personal Loan is paid in full.~~
- d) ~~In the event of a refund or lump sum distribution of the accumulated retirement contributions, the member's account shall be adjusted as necessary to recover any outstanding loan balance.~~

ADOPTED BY THE TEACHERS' RETIREMENT BOARD IN NOVEMBER 1986

REVISED ON AUGUST 20, 1990

REVISED ON NOVEMBER 4, 1998

REVISED ON APRIL 7, 1999

REVISED ON JANUARY 5, 2000

REVISED ON OCTOBER 11, 2000

REVISED ON MARCH 6, 2002

**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

GLOSSARY

~~**ACCUMULATED EMPLOYEE CONTRIBUTIONS**—The employee's contribution account that includes the member's retirement contributions and any accrued interest. This account does not include the employer's contribution.~~

BOARD – The California State Teachers' Retirement System Board of trustees.

CORRESPONDENT AGREEMENT – The contract between CalSTRS and a private financial institution that originates and services loans, which describes the respective duties of each party.

CORRESPONDENT LENDER – The private financial institution that originates and services home loans for CalSTRS' borrowers.

DEFAULT – A member is in default when the payment due on the Personal Loan has not been remitted for 120 days.

~~**ELIGIBILITY**—The secured Personal Loan permitted under this portion of the HLP will be made available to those who are entitled to receive an allowance funded by the System, notwithstanding any vesting requirement and without regard to present eligibility to retire, and who are not retired or disabled.~~

LOAN RATE – The cost of using money, expressed as a rate per period of time.

LOAN-TO-VALUE RATIO – The ratio of the loan amount to the appraised value of the property. Example: A property with a loan of \$80,000 and an appraised value of \$100,000 results in a loan-to-value of 80%.

~~**PERSONAL LOANS**—The 5 percent (5%) financing that CalSTRS will loan to its members in order to finance the down payment on the purchase of a single family dwelling in California.~~

~~**PLEDGE AMOUNT**—The total amount of the Personal Loan. This is the loan amount, plus all accrued interest, calculated at the time of loan origination.~~

PREPAYMENT PENALTY – A monetary penalty assessed against the borrower, designed to inhibit the borrower's ability to refinance.

CalSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

HOME LOAN PROGRAM (HLP) *Policies*

INVESTMENT BRANCH
March 2002

**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

TABLE OF CONTENTS

CalSTRS Home Loan Program Policies	1
CalSTRS Home Loan Program Flowchart	4
CalSTRS Home Loan Program Glossary	5

**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

PROGRAM POLICIES

March 2002

This policy document outlines the internally approved policies for the management of CalSTRS' HLP. These policies are designed to set the boundaries that will ensure prudence and care in the implementation of the program, while allowing sufficient flexibility in developing a program that is competitive and that will provide up to 100 percent (100%) home loan financing. Policies approved by the Board cannot be altered without explicit direction from the Board. A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are referenced in the Glossary.

1. **Laws and Statutes** – As stated within Section 22360 of the Teacher's Retirement Law, notwithstanding any other provision of law, the Board may, pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions within California to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes within the state. Furthermore, the Board shall include a procedure whereby a borrower may obtain 100 percent (100%) financing for the purchase of a single family dwelling within specified criteria.
2. **Program Objectives** – The criteria and terms for CalSTRS' home loans shall be consistent with the financial integrity of the program and the sound investment of the retirement fund. Appropriate administrative costs of implementing this program shall be paid by the participating borrowers. These costs may be included in the loan amount.
3. **Loan Rates** – Loan rates shall be periodically reviewed and adjusted as described within the Procedures and Desk Manuals to provide home loans to borrowers consistent with the financial integrity of the HLP and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be lower than the market rate.
4. **Property Types** – Mortgage Loans shall be made available to borrowers for the purchase or refinance of single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.
5. **Terms and Conditions** – Mortgage Loans shall be made available under the following terms and conditions:
 - a) Borrowers shall occupy the homes as their principal residence.
 - b) Home loans shall be secured primarily by the property purchased or refinanced, and shall not exceed the appraised value of that property.

- c) Home loans shall be available only for the purchase or refinance of homes in the State of California.
 - d) In no event shall the loan amount exceed two times the conforming loan limit of Fannie Mae or Freddie Mac, whichever is higher.
 - e) Prepayment penalties may be assessed on the Mortgage Loans in accordance with the rules and regulations established by the Board.
6. **Loan-to-Value Ratios (LTV)** – The terms and conditions shall provide a loan-to-value ratio of up to 100 percent (100%) of the appraised value of the property.
- The portion of any loan exceeding 80 percent (80%) of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent (75%) of the market value of the property, together with improvements thereon.
7. **Authorized Signers** – Authorization letters that indicate who may sign on behalf of CalSTRS shall be delivered to the appropriate parties. Whenever a change in authorized signers occurs, the affected parties shall be notified within 24 hours, in the event of termination, and as soon as possible, in the event of a newly authorized signer.
8. **Investment Limitations** – The following daily limits apply with respect to the approval of trade activity within the HLP:
- Investment Officer I – May approve up to \$5 million in loans per day.
 - Investment Officer II – May approve up to \$10 million in loans per day.
 - Investment Officer III – May approve up to \$20 million in loans per day.
 - Principal Investment Officer – May approve up to \$35 million in loans per day.
 - Director of Fixed Income – May approve up to \$50 million in loans per day.
 - Chief Investment Officer – May approve up to \$100 million in loans per day.
9. **Trade Processing** – Prior to being processed to Operations, all trade tickets shall be authorized within the limits noted above, and countersigned by two investment officers within Fixed Income.
10. **Business Plan** – The HLP will be managed in accordance with a Business Plan which will be prepared on an annual basis and will describe CalSTRS' goals for the HLP and will include a plan for achieving such goals over the subsequent twelve-month period.
11. **Delegation of Authority** – The implementation of CalSTRS' HLP is delegated to staff within the boundaries established by these policies and the processes outlined in the Procedures Manual.

12. **Reporting** – Staff will prepare monthly reports for the Chief Investment Officer which summarize the activities associated with the management of the HLP. The reports shall provide information regarding loan production, loan rates, and performance measurement.
13. **Board Review** – The Board shall administer and review this policy periodically, as it deems appropriate and in keeping with the investment standard.

ADOPTED BY THE TEACHERS' RETIREMENT BOARD IN NOVEMBER 1986

REVISED ON AUGUST 20, 1990

REVISED ON NOVEMBER 4, 1998

REVISED ON APRIL 7, 1999

REVISED ON JANUARY 5, 2000

REVISED ON OCTOBER 11, 2000

REVISED ON MARCH 6, 2002

**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

GLOSSARY

BOARD – The California State Teachers' Retirement System Board of trustees.

CORRESPONDENT AGREEMENT – The contract between CalSTRS and a private financial institution that originates and services loans, which describes the respective duties of each party.

CORRESPONDENT LENDER – The private financial institution that originates and services home loans for CalSTRS' borrowers.

DEFAULT – A member is in default when the payment due on the Personal Loan has not been remitted for 120 days.

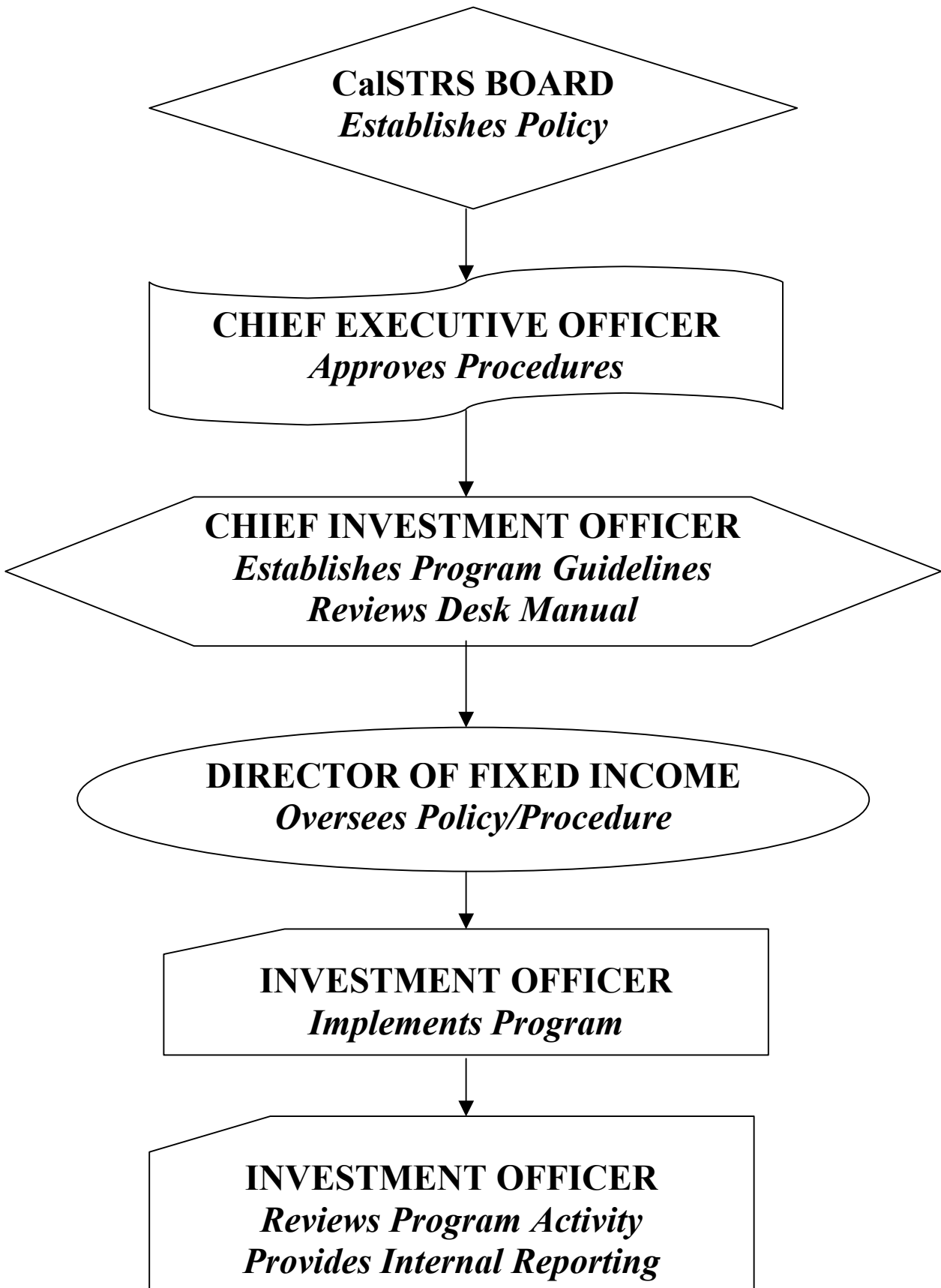
LOAN RATE – The cost of using money, expressed as a rate per period of time.

LOAN-TO-VALUE RATIO – The ratio of the loan amount to the appraised value of the property. Example: A property with a loan of \$80,000 and an appraised value of \$100,000 results in a loan-to-value of 80%.

PREPAYMENT PENALTY – A monetary penalty assessed against the borrower, designed to inhibit the borrower's ability to refinance.

California State Teachers' Retirement System
Home Loan Program (HLP) Policies

FLOWCHART



**California State Teachers' Retirement System
Home Loan Program (HLP) Policies**

GLOSSARY

BOARD – The California State Teachers' Retirement System Board of trustees.

CORRESPONDENT AGREEMENT – The contract between CalSTRS and a private financial institution that originates and services loans, which describes the respective duties of each party.

CORRESPONDENT LENDER – The private financial institution that originates and services home loans for CalSTRS' borrowers.

DEFAULT – A member is in default when the payment due on the Personal Loan has not been remitted for 120 days.

LOAN RATE – The cost of using money, expressed as a rate per period of time.

LOAN-TO-VALUE RATIO – The ratio of the loan amount to the appraised value of the property. Example: A property with a loan of \$80,000 and an appraised value of \$100,000 results in a loan-to-value of 80%.

PREPAYMENT PENALTY – A monetary penalty assessed against the borrower, designed to inhibit the borrower's ability to refinance.

RESOLUTION OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Home Loan Program – Investment Policy Revised

Resolution No. _____

WHEREAS, the Investment Committee of the California State Teachers' Retirement Board is responsible for recommendations to the Board, investment policy and overall investment strategies for the management of the Teachers' Retirement Fund, a multi-billion dollar public pension plan; and

WHEREAS, the Investment Committee is charged with developing the Fund's Investment Policies and Management Plan including the policies for individual programs, such as the Home Loan Program; and

WHEREAS, it is the Committee's desire to revise the existing policy for the Home Loan Program. Therefore, be it

RESOLVED, that the Investment Committee approve the revised Home Loan Program Investment Policy.

Adopted by:
Investment Committee
on March 6, 2002

Jack Ehnes
Chief Executive Officer